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2. BORNEO TAKES NEW STEPS TOWARD AUTONOMY

Civil and military officials in Borneo on 24 December signed a regional charter which places that area in a position of autonomy similar to Sumatra and

Celebes. The ceremony followed shortly on the local army commander's decision to institute barter trade with Singapore to ensure an adequate rice supply for the area. Both moves apparently have the approval of and may have been directed by Indonesia's second deputy prime minister, Idham Chalid, who is from Borneo and is a leader of the orthodox Moslem party, the Nahdlatul Ulama.

Developments in Borneo can be attributed to Djakarta's inability to meet Borneo's economic needs and to Chalid's recent interrogation in Djakarta as a subversive suspect. Chalid had earlier told American officials that regional feelings were strong in Borneo and that he could take the area into the rebel camp at any time. Borneo has operated under a locally proclaimed council since last March, but it has largely cooperated with Djakarta.

Borneo has important oil reserves and exports significant amounts of rubber and copra.

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3. USSR OFFERS TO BUY CEYLON'S TOTAL RUBBER OUTPUT

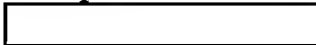
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The Soviet trade delegation now in Ceylon has offered to purchase Ceylon's entire rubber output--approximately 100,000 metric tons--at well over market prices for the next 10 to 15 years, according to a Ceylonese press report of 28 December. In return, Ceylon would purchase Soviet products. Ceylonese officials, however, are said to be balking at the barter aspects of the Soviet proposal. The USSR has previously offered to help improve Ceylonese rubber plantations and to purchase any increase in their output.

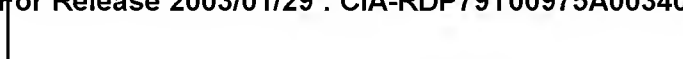
Ceylon, a high-cost rubber producer, has had difficulty since World War II in marketing its output. During the last five years, Communist China purchased 50,000 tons annually at premium prices, but in the new five-year agreement signed last September, China agreed to purchase only 30,000 tons at world market prices. Ceylon may therefore be interested in a purchase or barter deal with the USSR for at least 20,000 tons of rubber. Ceylon at present would probably be receptive to the Soviet offers of food. [REDACTED]

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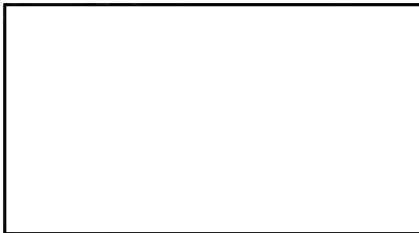
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4. GOVERNOR OF CYPRUS MAY END STATE OF EMERGENCY

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Governor Foot's serious consideration of possible termination of all emergency regulations on Cyprus over a three-month period reflects his desire to maintain the good will which has begun to build up since his arrival less than a month ago. Foot told the American consul at Nicosia that he does not believe a long-term settlement is possible at this time and that he therefore proposes to concentrate on making progress on the local scene in order to build confidence. This stand evidently forms part of the proposals which Foot will try to "sell" to London next week.

The governor's belief that an international agreement on Cyprus need not necessarily be reached before direct Anglo-Cypriot discussions conflicts with London's long-established position. Foot probably will propose that Archbishop Makarios return to Cyprus for talks there. Foot's recommendations may be adopted if the British can be persuaded to disregard Ankara's adamant stand against anything which might conceivably lead to union of Cyprus with Greece.

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